TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL MEMORANDUM

SB 47 – HB 813

April 20, 2016

SUMMARY OF ORIGINAL BILL: Establishes that in any year, beginning with FY14-15, in which state revenue growth exceeds three percent over the previous fiscal year, the Hall Income Tax (HIT) rate will be reduced by one percentage point on January 1 for the following calendar year; except that when the rate is reduced to three percent and in the event state revenue growth exceeds three percent over the previous fiscal year after such reduced rate becomes effective, then the subsequent reduction to the rate shall be three-fourths of one percent. Requires the Commissioner of Finance and Administration (F&A), in consultation with the Commissioner of Revenue, on June 15 of any such fiscal year, to certify the amount of the state tax revenue collected for the then current fiscal year and notify the Governor, Speakers of the Senate and House of Representatives, and State Treasurer of such amount, including the amount of any surplus state tax revenue collected. Requires the Commissioner of Revenue to publish, by September 1 immediately following the certification, the HIT rate at which the income derived from stocks and dividends shall be taxed beginning of January 1 of the next calendar year. Changes the local government distribution rate, after any deductions for necessary administrative expenses, from 37.50 percent to: 45.00 percent when the HIT rate is 5.00 percent; 56.25 percent when the HIT rate is 4.00 percent; 75.00 percent when the HIT rate is 3.00 percent; and 100.00 percent when the HIT rate is 2.25 percent, 1.50 percent, or 0.75 percent. Defines "state revenue growth" as, for any tax year, the percentage increase in revenue derived from state taxes and collected by the state.

CORRECTED FISCAL IMPACT OF ORIGINAL BILL:

Decree State Revenue – Net Impact –
$43,468,500/FY17-18
$86,954,900/FY18-19
$130,445,900/FY19-20
$163,054,000/FY20-21
$164,139,600/FY21-22
$165,225,200/FY22-23
$166,310,800/FY23-24 and Subsequent Years

Decrease State Expenditures – $500,000/FY24-25 and Subsequent Years

Increase Local Revenue – Net Impact –
$606,000/FY17-18
$1,229,900/FY18-19
$1,858,400/FY19-20
$2,319,600/FY20-21

Decrease Local Revenue – Net Impact –
$28,741,600/FY21-22
$59,802,900/FY22-23
$90,864,200/FY23-24 and Subsequent Years

Other Fiscal Impact – Secondary economic impacts may occur as a result of this bill. Such impacts may be realized due to changes in population or as a result of other behavioral changes prompted by the passage of this bill. Due to multiple unknown factors, fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

Any change in the fiscal impact as a result of state revenue growth not exceeding three percent over the previous fiscal year will be contingent upon the specific fiscal year in which such growth was not exceeded, and the apportionment rate for local government for any such fiscal year. The fiscal impact for the bill in such instances will be significant to both state and local government; however, any such fiscal impacts cannot be quantified.

SUMMARY OF AMENDMENTS (015921, 016310): Amendment 015921 deletes all language after the enacting clause. Decreases the HIT rate from six percent to five percent for tax years that begin on or after January 1, 2016. Establishes the legislative intent that the HIT be eliminated on or before January 1, 2021 through annual reductions made by enactments of general bills beginning with the first annual session of the 110th General Assembly.

Amendment 016310 amends the bill as amended by amendment 015921 by establishing that in any year, beginning with FY15-16, in which state revenue growth exceeds three percent over the previous fiscal year, the HIT rate will be reduced by one percentage point on January 1 for the following calendar year.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENTS:

Decrease State Revenue – Net Impact –
$27,718,500/FY16-17
$55,436,900/FY17-18
$83,155,400/FY18-19
$110,873,900/FY19-20
$138,592,300/FY20-21
$166,310,800/FY21-22 and Subsequent Years

Decrease State Expenditures – $500,000/FY22-23 and Subsequent Years

Decrease Local Revenue – Net Impact –
$15,144,000/FY16-17
$30,288,100/FY17-18
$45,432,100/FY18-19
$60,576,100/FY19-20
$75,720,200/FY20-21
$90,864,200/FY21-22 and Subsequent Years

Other Fiscal Impact – Secondary economic impacts may occur as a result of this bill. Such impacts may be realized due to changes in population or as a result of other behavioral changes prompted by the passage of this bill. Due to multiple unknown factors, fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

Any change in the fiscal impact as a result of state revenue growth not exceeding three percent over the previous fiscal year will be contingent upon the specific fiscal year in which such growth was not exceeded, and the apportionment rate for local government for any such fiscal year. The fiscal impact for the bill in such instances will be significant to both state and local government; however, any such fiscal impacts cannot be quantified.

Assumptions for the bill as amended:

- Pursuant to Tenn. Code Ann. § 67-2-102, HIT is a six percent tax on income derived from dividends on stock or from interest on bonds.
- It is assumed that state revenue growth will exceed three percent over the previous fiscal year, beginning in FY15-16.
- Given the tax changes shall be applied to tax years beginning with tax year 2016, and assuming that 100 percent of HIT owed for tax year 2016 is collected no later than June 30, 2017, the first year impacted by this bill will be FY16-17. This collection pattern is assumed to remain constant into perpetuity.
- The current Fiscal Review Committee estimate for HIT collections in FY16-17 is $270,000,000.
- Taxable income in FY16-17 is estimated to be $4,500,000,000 ($270,000,000 / 6.0%). This number is assumed to remain constant in subsequent years under current law.
- The decrease in HIT collections is estimated to be: $45,000,000 ($4,500,000,000 taxable income x 1.0% rate reduction) in FY16-17; $90,000,000 ($4,500,000,000 taxable income x 2.0% rate reduction) in FY17-18; $135,000,000 ($4,500,000,000 taxable income x 3.0% rate reduction) in FY18-19; $180,000,000 ($4,500,000,000 taxable income x 4.0% rate reduction) in FY19-20; $225,000,000 ($4,500,000,000 taxable income x 5.0% rate reduction) in FY20-21; $270,000,000 ($4,500,000,000 taxable income x 6.0% rate reduction) in FY21-22 and subsequent years.
- Based on apportionments of HIT collections for the last three fiscal years (FY12-13, FY13-14, and FY14-15), it is estimated that the state retains 64.97 percent of HIT revenue and local governments are apportioned 35.03 percent.

- The decrease in HIT revenue for the state is estimated to be: $29,236,500 ($45,000,000 x 64.97%) in FY16-17; $58,473,000 ($90,000,000 x 64.97%) in FY17-18; $87,709,500 ($135,000,000 x 64.97%) in FY18-19; $116,946,000 ($180,000,000 x 64.97%) in FY19-20; $146,182,500 ($225,000,000 x 64.97%) in FY20-21; and $175,419,000 ($270,000,000 x 64.97%) in FY21-22 and subsequent years.
- The decrease in HIT revenue for the local government is estimated to be: $15,763,500 ($45,000,000 x 35.03%) in FY16-17; $31,527,000 ($90,000,000 x 35.03%) in FY17-18; $47,290,500 ($135,000,000 x 35.03%) in FY18-19; $63,054,000 ($180,000,000 x 35.03%) in FY19-20; $78,817,500 ($225,000,000 x 35.03%) in FY20-21; and $94,581,000 ($270,000,000 x 35.03%) in FY21-22 and subsequent years.
- Fifty percent of tax savings will be spent in the economy on sales-taxable goods and services.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- The net increase in state sale tax revenue is estimated to be: $1,518,032 in FY16-17; $3,036,065 in FY17-18; $4,554,097 in FY18-19; $6,072,129 in FY19-20; $7,590,161 in FY20-21; and $9,108,194 in FY21-22 and subsequent years.
- The total increase in local sale tax revenue is estimated to be: $619,468 in FY16-17; $1,238,936 in FY17-18; $1,858,403 in FY18-19; $2,477,871 in FY19-20; $3,097,339 in FY20-21; and $3,716,807 in FY21-22 and subsequent years.
- Calculations for these estimates have been omitted for the purpose of brevity but are available upon request to the Fiscal Review Committee staff.
- The net recurring decrease in state revenue is estimated to be: $27,718,468 ($29,236,500 - $1,518,032) in FY16-17; $55,436,936 ($58,473,000 - $ 3,036,065) in FY17-18; $83,155,403 ($87,709,500 - $4,554,097) in FY18-19; $110,873,871 ($116,946,000 - $6,072,129) in FY19-20; $138,592,339 ($146,182,500 - $7,590,161) in FY20-21; and $166,310,807 ($175,419,000 - $9,108,194) in FY21-22 and subsequent years.
- The net recurring decrease in local revenue is estimated to be: $15,144,032 ($15,763,500 - $619,468) in FY16-17; $30,288,065 ($31,527,000 - $1,238,936) in FY17-18; $45,432,097 ($47,290,500 - $1,858,403) in FY18-19; $60,576,129 ($63,054,000 - $2,477,871) in FY19-20; $75,720,161 ($78,817,500 - $3,097,339) in FY20-21; and $90,864,194 ($94,581,000 - $3,716,807) in FY21-22 and subsequent years.
- The Department of Revenue would eliminate all HIT audit positions once HIT is phased out. The recurring decrease in state expenditures is estimated to be approximately $500,000, beginning in FY22-23. Due to filing extensions and late filings, all auditors would remain in the HIT division through FY21-22.
- There could be subsequent increases in state and local government revenue and expenditures due to the secondary economic impacts prompted by the passage of this bill. Increases in revenue may occur if the state’s population increases as a result of reduced tax liability. Increases in expenditures may occur if the demand for governmental programs and infrastructure increases as a result of population changes. Due to multiple unknown factors, such as the extent and timing of population changes, the fiscal impacts directly attributable to such secondary impacts cannot be quantified with reasonable certainty.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

Krista M. Lee

Krista M. Lee, Executive Director

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